

STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
Land Division  
Honolulu, Hawaii 96813

December 8, 2006

Board of Land and Natural Resources  
State of Hawaii  
Honolulu, Hawaii

PSF No.:060D-194

Oahu

Consent to Assign General Lease No. S-3764, Sugita Enterprises, Ltd. dba Hawaiian Floral Nursery, Assignor, to Coral Shores Enterprises Inc. dba Trade Winds Flower Farm, Assignee, Waimanalo, Koolaulupoko, Oahu, TMK:(1) 4-1-010:08.

APPLICANT:

Sugita Enterprises, Ltd. dba Hawaiian Floral Nursery, as Assignor, to Coral Shores Enterprises Inc. dba Trade Winds Flower Farm, Assignee, a domestic profit corporation, whose business and mailing address is 2237 Apa'akuma Street, Pearl City, Hawaii 96782, as Assignee.

LEGAL REFERENCE:

Section 171-36(a) (5), Hawaii Revised Statutes, as amended.

LOCATION AND AREA:

Portions of Government lands situated at Waimanalo, Koolaulupoko, Oahu, identified by Tax Map Key: (1) 4-1-010:08, as shown on the attached map labeled Exhibit A.

AREA:

3.228 acres, more or less.

TRUST LAND STATUS:

Section 5(b) lands of the Hawaii Admission Act

DHHL 30% entitlement lands pursuant to the Hawaii State  
Constitution: YES \_\_\_\_\_ NO X\_\_\_\_\_

CHARACTER OF USE:

Diversified agriculture purposes.

TERM OF LEASE:

Original term of 20 years, commencing on December 2, 1963, and expiring on September 1, 1983. On September 24, 1982, an extension of the General Lease for an additional 25 years was approved to commence on December 2, 1983 and expire on December 1, 2008.

BLNR-Consent to Assign  
Gen. Lease No. S-3764, Sugita Enterprises  
To Coral Shores Enterprises

December 8, 2006

A second extension of 10 years commencing on December 2, 2008 and expiring on December 1, 2018, was approved by the Board on December 12, 2003.

ANNUAL RENTAL:

\$3,600.00

CONSIDERATION:

\$750,000.00

RECOMMENDED PREMIUM:

\$10,436.00 (Refer to Exhibit B attached.)

DCCA VERIFICATION:

ASSIGNOR:

Place of business registration confirmed:	YES	<u>X</u>	NO	<u>      </u>
Registered business name confirmed:	YES	<u>X</u>	NO	<u>      </u>
Good standing confirmed:	YES	<u>X</u>	NO	<u>      </u>

ASSIGNEE:

Place of business registration confirmed:	YES	<u>X</u>	NO	<u>      </u>
Registered business name confirmed:	YES	<u>X</u>	NO	<u>      </u>
Good standing confirmed:	YES	<u>X</u>	NO	<u>      </u>

REMARKS:

General Lease No. S-3764 commenced on December 2, 1963 for a term of twenty (20) years and was subsequently extended for twenty-five (25) years on December 2, 1983 up to and including December 1, 2008.

The subject lease was first issued to Evergreen Nurseries and was subsequently assigned to Servco Pacific, Inc. on September 9, 1981.

The Land Board, at its meeting of February 26, 1993, under agenda item F-1-c, approved the Consent to the Assignment of General Lease No. S-3764 from Servco Pacific, Inc., a Hawaii corporation, to Sugita Enterprises, Ltd, dba Hawaiian Floral Nursery.

Sugita Enterprises, Ltd. dba Hawaiian Floral Nursery has been in the nursery business for over 43 years. Previous site inspections revealed that the Lessees are utilizing the property for their nursery business, which generates a major source of their income. The nursery contributes to the economy by employing a number of both full and part-time employees.

A recent site inspection, conducted on February 6, 2003, confirmed the subject property is being used to operate a large scale nursery. Staff found the property is being maintained in a good, clean and orderly condition, clear of any debris or derelict vehicles.

December 8, 2006

A rental reopening determined the rent for the period from December 2, 2003 to December 1, 2008 at \$3,600.00 per annum. This was accepted by the tenant in February 2003. The next rental reopening for the extended term will be on December 2, 2013, for the period December 2, 2013 to December 1, 2018. There are no outstanding rental reopening issues.

By way of a letter with a State Lands Application Form dated August 10, 2006 from Mr. Dann Perrin of Coral Shores Enterprises, Inc., Land Division was informed by Mr. Darrell Sugita of Sugita Enterprises, Ltd. that they are requesting the Board's approval to assign General Lease No. S-3764 to Coral Shores Enterprises, Inc., dba Trade Winds Flower Farm.

Mr. Sugita stated that he is agreeable to assigning the lease to Coral Shores Enterprises due to Mr. Perrin's impressive background and knowledge of orchid growing. In addition, Mr. Perrin agreed to continue operating the nursery operation as it exists now and retain the current full-time and part-time employees.

Mr. Perrin's experience involves raising and hybridizing many types of tropical plants, including a significant collection of orchids (average around 500\* plants) and African violets, for approximately 30 plus (30 +) years. He currently is the President of Luhia Okika, an organization for fanciers of species orchids and the former President and now a Board member of the African Violet Society of Hawaii.

The assignee intends to continue the existing orchid growing operation and hopes to expand its operation for the growing of African violet species. The plants will be sold to the wholesale market and other wholesale nurseries.

A Soil and Water Conservation Plan was initially approved by the Windward Oahu Soil Conservation District for the prior lessee in March 19, 1964. Sugita Enterprises, Ltd. does not have an updated conservation plan.

However, staff is working with a number of lessees state-wide, whose plans are older than five years, the ordinary term. Upon the assignment of this lease, staff will work with Mr. Dann Perrin of Coral Shores Enterprises, Inc. on this lease requirement.

As of the date of this submittal, the Lessee is current with all the terms and conditions of the lease including rent, insurance and performance bond. Assignee has not had a lease, permit, easement or other disposition of State lands terminated within the last five years due to non-compliance with such terms and conditions.

Staff did not solicit comments from other agencies as the proposed use is not different from the existing use. There are no other pertinent issues or concerns.

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Initially, General Lease No. S-3764 did not contain any provisions which allowed for an assignment lease premium to be charged to the Lessee, however, when the Lease was extended in May 9, 1991, an Assignment of Lease Evaluation Policy was included in the lease extension which allowed for an assignment premium to be charged to the Lessee. (Exhibit "C")

Pursuant to the lease assignment provision contained in the Extension of General Lease No. S-3764 and the Assignment of premium calculation attached as Exhibit "B" to the lease, our Staff Appraiser has determined that a lease assignment of \$10,436.00 is due to the State.

Staff respectfully requests the Board's approval for the assignment of General Lease No. S-3764 from Sugita Enterprises, Ltd. dba Hawaiian Floral Nursery to Coral Shores Enterprises Inc. dba Trade Winds Flower Farm.

RECOMMENDATION:

That the Board consent to the assignment of General Lease No. S-3764 from Sugita Enterprises, Ltd. dba Hawaiian Floral Nursery, as Assignor, to Coral Shores Enterprises, Inc. dba Trade Winds Flower Farm, as Assignee, subject to the following:

1. The standard terms and conditions of the most current consent to assignment form, as may be amended from time to time;
2. A lease assignment premium of \$10,436.00 be made by Sugita Enterprises, Ltd. dba Hawaiian Floral Nursery to the Department of Land and Natural Resources;
3. Review and approval by the Department of the Attorney General; and
4. Such other terms and conditions as may be prescribed by the Chairperson to best serve the interests of the State.

Respectfully Submitted,

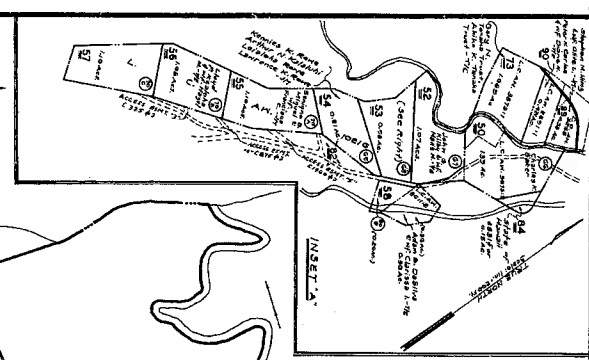


Steve Lau  
Land Agent

APPROVED FOR SUBMITTAL:

  
PETER T. YOUNG, Chairperson

ZONE 4 SEC. 2

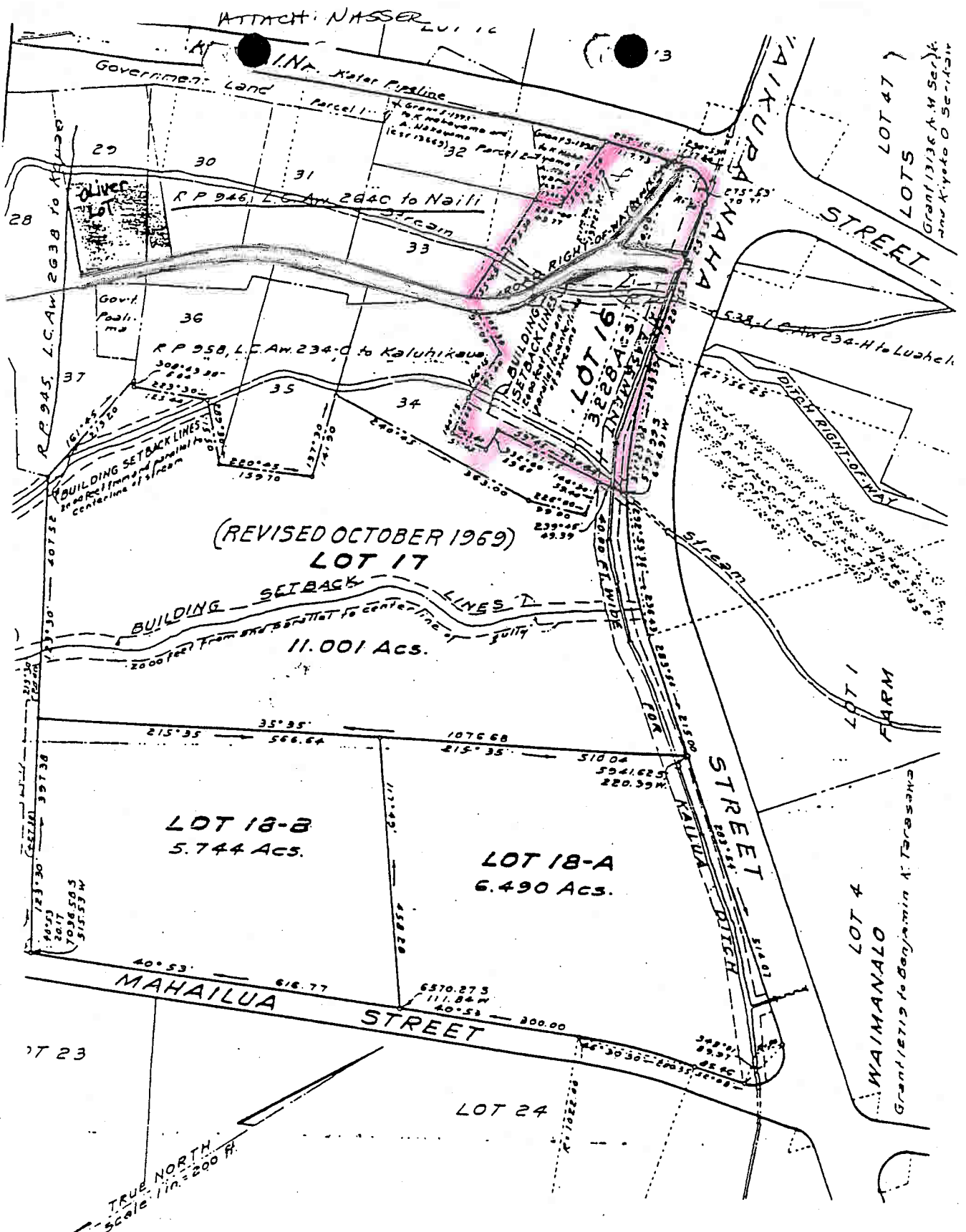


SUBJECT  
PROPERTY

DEPARTMENT OF TAXATION  
PROPERTY ASSESSMENT DIVISION  
TAX MAPS BRANCH  
STATE OF HAWAII  
TAX MAP

ZONE	SEC	PLAT
4	1	10

SCALE: 1 IN. = AS NOTED



# WAIMANALO AGRICULTURAL SUBDIVISION

## LOTS 16, 17, 18-A AND 18-B

Waimanalo, Koolau, Oahu, Hawaii

Scale 1 inch = 200 feet

Taga

Coordinates referred to WAIMANALO RIDGE

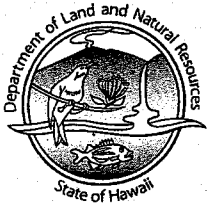
NOTE: Road Easement in Lot 19 added to plan by A. Taga Oct. 8, 1963 Job No. 6-4482

4-1-08

SURVEY DIVISION  
DEPARTMENT OF ACCOUNTING AND GENERAL

EXHIBIT A

LINDA LINGLE  
GOVERNOR OF HAWAII



STATE OF HAWAII  
DEPARTMENT OF LAND AND NATURAL RESOURCES  
LAND DIVISION

POST OFFICE BOX 621  
HONOLULU, HAWAII 96809

October 27, 2006

PETER T. YOUNG  
CHAIRPERSON  
BOARD OF LAND AND NATURAL RESOURCES  
COMMISSION ON WATER RESOURCE MANAGEMENT

ROBERT K. MASUDA  
DEPUTY DIRECTOR

DEAN NAKANO  
ACTING DEPUTY DIRECTOR - WATER

AQUATIC RESOURCES  
BOATING AND OCEAN RECREATION  
BUREAU OF CONVEYANCES  
COMMISSION ON WATER RESOURCE MANAGEMENT  
CONSERVATION AND COASTAL LANDS  
CONSERVATION AND RESOURCES ENFORCEMENT  
ENGINEERING  
FORESTRY AND WILDLIFE  
HISTORIC PRESERVATION  
KAHOOLAWE ISLAND RESERVE COMMISSION  
LAND  
STATE PARKS

DEPT OF LAND  
& NATURAL RESOURCES  
STATE OF HAWAII

16 NOV -6 A 6:58

RECEIVED

MEMORANDUM

TO: Peter T. Young, Chairperson

THROUGH: Russell Y. Tsuji, Land Division Administrator

FROM: Cyrus C. Chen, Real Estate Appraisal Manager

SUBJECT: Assignment Premium Calculation

GL No.:	S-3764
Lessee/Assignor:	Sugita Enterprises, Ltd. dba Hawaiian Floral Nursery
Assignee:	Coral Shores Enterprises Inc. dba Trade Winds Flower Farm
Location:	Waimanalo, Oahu, Hawaii
Lease Area:	3.228 acres
Tax Map Key:	(1) 4-1-10: 08

We have been requested to provide an in-house evaluation for the assignment premium due to the State for an assignment of GL S-3764. The lease is subject to the Assignment of Lease Evaluation Policy, approved by the Land Board on December 15, 1989 under agenda item F-10. This policy gives the DLNR authority to charge an assignment premium for the sale of qualifying DLNR leases by the Lessee. It also outlines the formula for calculating assignment premiums.

The subject property is currently improved with a farm residence, office, laboratory, enclosed porch, carport, 9 greenhouses, warehouse shed, irrigation system, fencing, and paving. The Assignment of Lease Evaluation Policy requires that the Lessee provide construction receipts for the calculation of the assignment premium. The Lessee did not have any such receipts but he provided a recent appraisal, which contained a cost analysis. A copy of the appraisal prepared by Charles Shipman of Appraisal Home, LLC, was provided to the Appraisal Manager who considers the cost estimate to be reliable coming from a certified independent appraisal. The assignment of lease premium calculation is displayed in the table below.

EXHIBIT "B"

The DROA for the subject property indicates that the consideration is \$750,000. The Lessee will also convey 70% of the orchid inventory on hand to the buyer. The Lessee discounted the entire market value of the orchid inventory by 50% as a bulk discount but will keep 30% of the inventory and transfer it to another one of his properties. Therefore, the \$171,619 value of the inventory reflects the bulk discount and a 30% reduction of the inventory.

Assignment of Lease Premium Calculation			
<u>GL 3764: Coral Shores Enterprises dba Trade Winds Flower Farm</u>			
Consideration	\$750,000		
Less Value of Inventory	<u>(\$171,619)</u>		
Net Consideration		\$578,381	
Depreciated Improvement Cost	\$451,418*		
Cost of FF&E	<u>22,600*</u>		
Total adjustment (Improvements, FF&E)		<u>(\$474,018)</u>	
Excess		\$104,363	
Premium Percentage	x	<u>10%</u>	
Premium		<u>\$10,436</u>	
* Cost data from current Lessee			

The cost approach was the basis of determining the assignment of lease premium due the Lessor. An estimate of the replacement cost of new improvements was derived first, then discounted for depreciation. Total depreciation was estimated at \$134,830. Subtracting this amount from the total cost as new of \$586,257 results in an estimated depreciated value of all improvements of \$451,418 as shown in the table. Total value for furniture, fixtures and equipment was estimated to be \$22,600. Therefore, total improvement value was estimated to be \$474,018. The difference, or excess, between the net consideration and total depreciated improvement value, is \$104,363. The percentage of the excess ("premium percentage") due the Lessor was based on the time elapsed on the lease, resulting in \$10,436 premium due the Lessor.

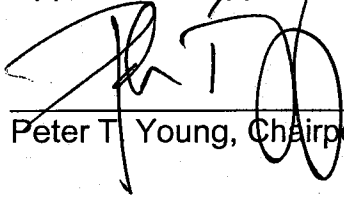
Land value was estimated by the appraiser to be \$62,803, resulting in a rounded market value of \$514,000 via the cost approach, which is not shown in the table because it is not relevant to this analysis. However, the value indication by the cost approach was weighted with a 96% factor while the sales comparison approach was only given nominal consideration and weighted with a 4% factor. A final "as is" value estimate of \$505,000 was derived. The final "as is" value estimate is also not material to this analysis as the assignment premium is based on depreciated improvement value. Mr. Shipman did not consider the sales comparison approach to be a very reliable indicator of market value due to the dated data and the motivations of market participants who weren't in the market to work in agriculture. The income approach was not considered in the appraisal due to the lack of empirical market data from farmers.



and also because potential income is not typically used by market participants in making decisions on agricultural properties.

The calculation indicates an assignment premium \$10,436 as indicated by the premium calculation above. Therefore, according to the calculations, we conclude an assignment premium of \$10,436 is due.

Approved/Disapproved:



Peter T. Young, Chairperson

NOV 08 2006

Date

cc: District Branch Files  
Central Files

## ASSIGNMENT OF LEASE EVALUATION POLICY

### 1. Enabling Statute.

Act 104, effective May 24, 1989, amended Chapter 171-36(a)(5) to read in part:

"... provided further that prior to the approval of any assignment of lease, the board shall have the right to review and approve the consideration to be paid by the assignee and may condition its consent to the assignment of the lease on payment by the lessee of a premium based on the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee;" (revision underlined)

### 2. Qualifying Leases.

The evaluation for premium determination will only be applicable to leases from which the state can receive premiums as determined by the Attorney General.

### 3. Prior Approval.

Prior to giving its consent to an assignment, DLNR must receive (i) the name, legal composition and address of any proposed assignee, (ii) a complete copy of the purchase agreement and the proposed assignment agreement, including the total consideration to be paid by the assignee for the assignment whether by cash, credit or otherwise, and (iii) the best available financial statement or balance sheet no older than 1 year prior to date of purchase agreement of the proposed assignee or any other such statement, audited or certified as correct by a financial officer of the proposed assignee.

Assignments of lease shall not be entered into until the Attorney General has reviewed the proposed assignment and the Land Board have given their approval. Such assignments shall be entertained only if they meet the criteria set forth in Section 171-36(a)(5), HRS.

### 4. Qualifications of Assignee.

If qualification was required of a lessee as a pre-condition of the lease, the prospective assignee must also be qualified to assume the lease.

5. Consideration to be Paid.

Prior to review by the Attorney General and approval by the Land Board, the lessee (assignor) must present with written evidence of the consideration to be paid by the assignee and any other cost data that the state may require.

6. Payment of Premium.

The act permits the state to receive from the lessee (assignor) a premium based on the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee. The value of the inventory of merchandise and any other tangible assets in the sale of a business shall be deducted from the consideration paid. The appropriate cost index is then applied to determine the adjusted depreciated cost.

All lessees shall be required to furnish the state with the actual costs of construction of all improvements and renovations within 30 days after its completion as well as the purchase costs of all trade fixtures acquired for the lessee's operation on the premises within 30 days after their purchase. Lessees shall be required to furnish evidence of the actual costs by copy of the construction contract, receipts or otherwise. Lessees shall also be required to furnish an inventory of all personal property placed on the premises. Records of all costs incurred by the lessee for construction of improvements or renovations as well as trade fixtures submitted by the lessee shall be maintained in the lease file and shall include the Construction Cost Index for Apartments, Hotels, Office Buildings (CCI) and the Honolulu Consumer Price Index for All Urban Consumers (CPI) as published by the U.S. Department of Labor, Bureau of Labor Statistics for the year construction is completed.

The replacement cost for improvements or renovations is calculated by using the CCI for the evaluation year divided by the CCI for the year in which the improvements or renovations were completed (base year). The result is then multiplied by the original cost of the improvements or renovations. For trade fixtures, the cost is similarly calculated by using the CPI for the purchase year (base year) and the evaluation year.

Depreciation of improvements and trade fixtures will be determined on a straight line basis. Depreciation of improvements or renovations will be determined in the same proportion that the expired term of the improvements or renovations bear to the whole term. The whole term will be from the date the construction of the improvements or renovations are completed until the termination date of the lease. Depreciation of trade fixtures will be determined in the same manner, except that the whole term will be the anticipated life of the trade fixture.

The premium will be a maximum of 50% of the excess. The percentage will decrease by 5% after every 5 years of the term has elapsed in accordance with Schedule C. The sliding scale will encourage long term occupancy and prevent speculation as well as recognize the investment, effort, and risk of the lessee.

Only in cases where the lessee has essentially constructed or directed the construction of its own improvements, may the lessee be given the option of paying for an appraiser, but to be selected by the state, to determine the valuation of the improvements.

Schedule D attached provides a typical example of the evaluation calculations using Schedule A to calculate the replacement cost for improvements or renovations and depreciation, Schedule B to calculate the cost and depreciation for trade fixtures, and Schedule C to obtain the premium percentage.

7. Non-qualifying Deductions.

The statute only recognizes tangible items. Intangibles such as "goodwill", business name recognition, etc., are not deductible.

SCHEDULE A.      Adjusted Depreciated Cost of Improvements or Renovations

1.    Adjusted Cost of Improvements or Renovations.

Multiply the actual cost of the improvements or renovations by the most recent U.S. Construction Cost Index for Apartments, Hotels, Office Buildings (CCI)\* and divide the result by the CCI of the year construction was completed (base year) to get the adjusted cost of improvements or renovations.

2.    Depreciation

Determine the depreciation percentage on a straight-line basis by dividing the expired term of the improvements or renovations by the whole term of the improvements or renovations, the whole term beginning on the date the improvements or renovations are completed to the expiration date of the lease. Multiply the adjusted cost of the improvements or renovations by the depreciation percentage to determine the depreciation.

3.    Depreciated Cost of Improvements or Renovations

Subtract the depreciation from the adjusted cost of improvements or renovations. The balance is the depreciated cost of improvements or renovations.

\*As published by the U.S. Department of Labor, Bureau of Labor Statistics

Example

	Actual cost:	\$500,000
	CCI (most recent):	121.1
	CCI (base year):	102.3
1.    Adjusted Cost of Improve-	Expired term:	57 mos.
ments or Renovations	Whole term:	408 mos.

Actual Cost X  $\frac{\text{CCI (most recent)}}{\text{CCI (base year)}}$

$$\$500,000 \times \frac{121.1}{102.3} = \$591,887$$

2.    Depreciation

$$\$591,887 \times \frac{57 \text{ mos.}}{408 \text{ mos.}} = \$82,690$$

3.    Adjusted Depreciated Cost of Improvements or Renovations

$$\$591,887 - \$82,690 = \underline{\$509,197}$$

SCHEDULE B.  
Trade Fixtures

Adjusted Depreciated Cost of

1. Adjusted Cost of Trade Fixture.

Multiply the actual cost of the trade fixture by the most recent Honolulu Consumer Price Index for All Urban Consumers (CPI)\* and divide the result by the CPI of the year in which the purchase was made (base year).

2. Depreciation.

Determine the depreciation percentage on a straight-line basis by dividing the expired term of the trade fixture by its anticipated life. Multiply the adjusted cost of the trade fixture by the depreciation percentage to determine the depreciation.

3. Depreciated Cost of Trade Fixtures.

Subtract the depreciation from the adjusted cost of the trade fixture. The balance is the depreciated cost of the trade fixture.

\*As published by the U.S. Department of Labor, Bureau of Labor Statistics

Refrigerator

Example

1. Adjusted Cost of Trade  
Fixture

Actual cost:	\$1,510
CPI (most recent):	118.1
CPI (base year):	104.6
Expired term:	57 mos.
Whole term:	96 mos.
(Anticipated life)	

Actual Cost X  $\frac{\text{CPI (most recent)}}{\text{CPI (base year)}}$

$\$1,510 \times \frac{118.1}{104.6} + \$1,705$

2. Depreciation

$\$1,705 \times \frac{57 \text{ mos.}}{96 \text{ mos.}} = \$1,012$

3. Adjusted Depreciated Cost of Trade Fixture

$\$1,705 - \$1,012 = \$693$

Schedule C. Premium Percentages

1. For the first 5 years, the premium is 50% of the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee. The percentage will decrease by 5% after every 5 years of the total term has elapsed.

<u>Years</u>	<u>Percentage</u>
1 - 5	50%
6 - 10	45%
11 - 15	40%
16 - 20	35%
21 - 25	30%
26 - 30	25%
31 - 35	20%
36 - 40	15%
41 - 45	10%
46 - 50	5%
51 -	0%

As an example, if a 55 year lease was assigned after 57 months, the premium percentage would be 50%. If the assignment occurs after 130 months (10+ years), the percentage would be 40%.

2. The Board of Land and Natural Resources may impose a ten percent (10%) surcharge if the assignor has not performed lease covenants to improve or use the property.

Schedule D. Assignment of Lease Calculations

1. Subtract the amount, if any, of the consideration for the assignment that is attributable to inventory.
2. Calculate the Adjusted Depreciated Cost of Improvements or Renovations (see Schedule A).
3. Calculate the Adjusted Depreciated Cost of Trade Fixtures (see Schedule B).
4. Calculate the amount by which the consideration for the assignment, whether by cash, credit, or otherwise, exceeds the depreciated cost of improvements and trade fixtures being transferred to the assignee by subtracting the amounts derived by no. 2 and 3 from the amount in no. 1 above.
5. Determine the appropriate premium percentage (see Schedule C). Multiply by the excess, if any, derived by no. 4.

Example

A lease is being assigned 57 months after completion of the improvements at a consideration of \$600,000.

The initial cost of the improvements was \$500,000 while the current year CCI and base year CCI were 121.1 and 102.3, respectively. The whole term for the improvements is 408 months.

For the trade fixtures, the initial cost was \$1,510 with the current year CPI and base year CPI being 118.1 and 104.6, respectively. The total life expectancy is 96 months.

1.	Net Consideration:		\$600,000
2.	Adj Cost Imp/Ren:	\$591,887	
	Depreciation:	<u>- 82,690</u>	
	Adj Dep Cost Imp/Ren:		-509,197
3.	Adj Cost Trade Fixtures:	1,705	
	Depreciation:	<u>- 1,012</u>	
	Adj Dep Cost Trade Fixtures:		- 693
4.	Excess:		\$ 90,110
5.	Premium:	Percentage: 50%	\$ 45,055